

THE SAFAL NIVESHAK STREAM | 23RD FEBRUARY 2019

SHERLOCK HOLMES' THINKING
BLUEPRINT, GREATEST INVESTOR
YOU'VE NEVER HEARD OF, FAKE
NEWS, AND MARCUS AURELIUS
ON MORTALITY

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Book I'm Reading

A Few Lessons from Sherlock Holmes is a brilliant book from Peter Bevelin, where he distills Arthur Conan Doyle's lead character into bite-sized principles and key quotes. In fact, this book is much more than a collection of quotes. **It is a way to learn the powers of observation, understand the limits of our mind, and counter the narrative fallacy.**

Sherlock Holmes is the epitome of rationality, and when it comes to making businesses decision, a rational thinking goes a long way in keeping you out of trouble. Thinking is mostly an automatic process for everybody but while making critical decisions in life (and in business of investing) one needs to come out of the autopilot mode and learn the art of thinking clearly. Sherlock Holmes give us a framework, a blue print if you will, of thinking.

Bevelin writes in the book –

What distinguishes Holmes from most mortals is that he knows where to look and what questions to ask. He pays attention to the important things and he knows where to find them.

A FEW LESSONS FROM SHERLOCK HOLMES



Peter Bevelin

Book I'm Reading – A Few Lessons from Sherlock Holmes

At the start of the book, Bevelin quotes mathematics and science writer Martin Gardner saying this about Sherlock Holmes (emphasis mine) –

*Like the scientist trying to solve a mystery of nature, **Holmes first gathered all the evidence he could that was relevant to his problem.** At times, he performed experiments to obtain fresh data. **He then surveyed the total evidence in the light of his vast knowledge** of crime, and/or sciences relevant to crime, to arrive at the most probable hypothesis. **Deductions were made from the hypothesis; then the theory was further tested against new evidence,** revised if need be, until finally **the truth emerged with a probability close to certainty.***

There you have it! That's the entire process of solving a mystery. The work of an investor or an analyst working diligently through a company's analysis isn't any different than that of a detective in search of the ultimate truth in a crime.

[A Few Lessons from Sherlock Holmes](#) is a great guide for anyone wanting to learn how to analyze businesses to pick the right kind of stocks for long-term investment.

Articles I'm Reading

1. The Greatest Investor You've Never Heard Of

Prudent do-it-yourself buy-and-hold investing works, as Herbert Wertheim, an optometrist and small businessman, has shown. Just that you must practice it over a long period of time –

Dr. Herbie, as he is known to friends, is a self-made billionaire worth \$2.3 billion by Forbes' reckoning—not including the \$100 million he has donated to Florida's public universities. His fortune comes not from some flash of entrepreneurial brilliance or dogged devotion to career, but from a lifetime of prudent do-it-yourself buy-and-hold investing.

"You take what you earn with the sweat of your brow, then you take a percentage of that and you invest it in other people's labor," Wertheim says of his near-religious devotion to tithing his wages into the stock market.

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Articles I'm Reading

2. How to Invest a Lump Sum

Suppose you received a windfall. Someone gave you a gift or you inherited a lot of money. Maybe you hit the lottery jackpot or got a huge bonus.

Here's the question you face: Should you invest it all right away or in smaller increments over time, a strategy known as dollar-cost averaging? Nick Maggiulli of *Of Dollars And Data* blog shares a fresh, insightful perspective to answer this question –

In a paper from 2012, Vanguard found that 66% of the time it is better to invest your money right away (Lump Sum) rather than buying in over 12 months (Dollar-Cost Averaging/DCA). I don't disagree with Vanguard's results (my results were strikingly similar), but I don't think they went deep enough in explaining why this is true.

The main reason Lump Sum outperforms DCA is because most markets generally rise over time. Because of this positive long-term trend, DCA typically buys at higher average prices than Lump Sum. Additionally, in those rare instances where DCA does outperforms Lump Sum (i.e. in falling markets), it is difficult to stick to DCA. So the times where DCA has the largest advantage are also the times where it can be the hardest for investors to stick to their plan.

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Articles I'm Reading

3. Is an Obsession with Outcomes the Most Damaging Investor Bias?

Most investment experts selling their services always highlight the outcome – so much return in so many months or years – and never the process they used to get this outcome. This is simply because, while the outcome is there for everyone to see (availability bias), investors rarely ask the question whether that outcome was due to the skill of the expert (a proper investment process) or merely luck.

This is not to say that results don't matter; obviously they are extremely important in measuring success. But if the results have been largely thanks to luck, they may not come in as expected in the future.

What is more, if you focus only on the outcome, you are less likely to achieve it. Instead, if you focus on the process, the outcome will take care of itself. But then –

Despite the problems of using results as a barometer of decision quality, it remains endemic in investment. We use outcomes as a simple indicator and then weave narratives around these views. We take a difficult problem, simplify it (are results good or bad?) and then create a story to justify the outcome. This pattern of behaviour is evident in a range of poor investment decisions, such as: susceptibility to financial frauds, participation in investment bubbles, performance chasing and excessive short-term trading.

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Articles I'm Reading

4. The Imperfect Truth About Finding Facts In A World Of Fakes

I remember during my school days, there were special editions of Hindi newspapers on festivals like Holi that contained fake news all over them. I was amused that people would buy these newspapers, some knowingly, while others just believed the stories.

Fast-forward two decades, and here I see a whole range of fake news on the Internet, like in my Facebook, LinkedIn, WhatsApp and Twitter feeds. The problem with using social media is that people just post anything they've received without looking into the facts. There are people who get a thrill from posting fake news. This has become a huge problem on the internet.

Fake news not only misinforms the audience but it also shows how easily we trust and get fooled by articles shared on social media –

We've lost signals of credibility. Before the online era, you would need to shell out a lot of money to print a fake newspaper, or it would look like an obvious counterfeit. (In fact, in January a group called the Yes Men printed 25,000 copies of a parody Washington Post with anti-Trump fare; that stunt cost more than \$30,000, according to one of the organizers, who was interviewed in the real Washington Post.) Scrolling through Facebook, however, there's little distinguishing an article from The Wall Street Journal from the sham Denver Guardian. It's easier than ever to be fooled.

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Should I Buy This Stock?

- Questions People Ask -

How good is valuation?

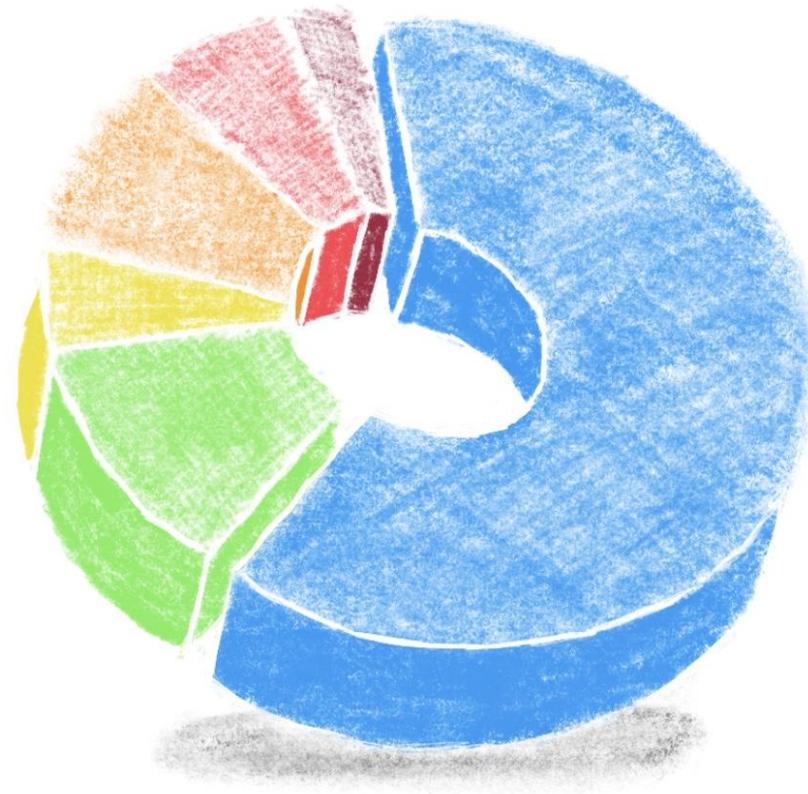
How good is the business?

* Has a big investor bought the stock recently?

How good is management?

* Are people talking about the stock in social media?

* Has the stock risen over the past few months?



* Bad Questions

An Idea,
Illustrated –
Be Careful of
“Why” You’re
Buying A Stock

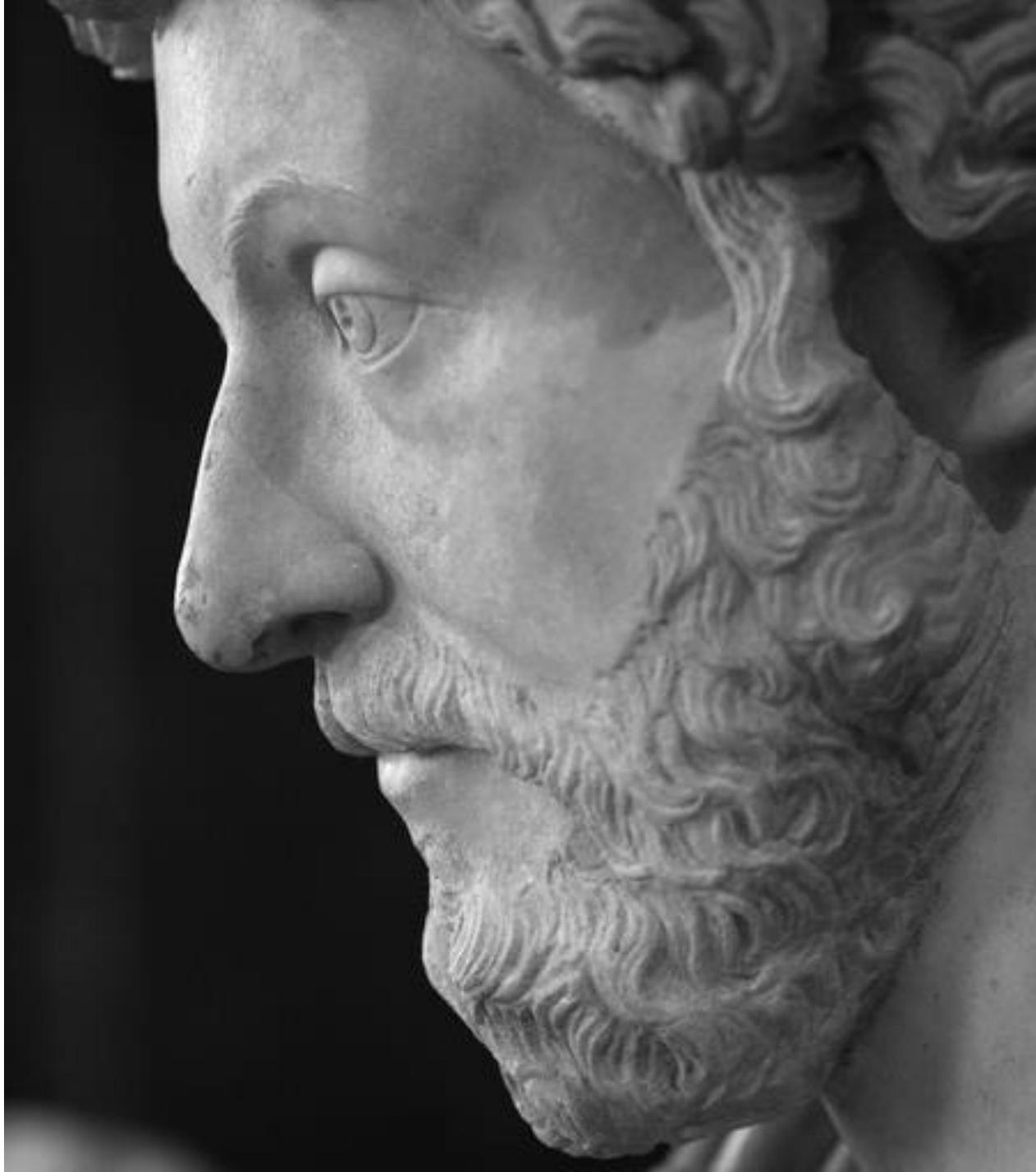
Thought I'm Meditating On

Marcus Aurelius wrote in Meditations –

Mortal man, you have lived as a citizen in this great city. What matter if that life is five or fifty years? The laws of the city apply equally to all. So what is there to fear in your dismissal from the city?

This is no tyrant or corrupt judge who dismisses you, but the very same nature that brought you in. It is like the officer who engaged a comic actor dismissing him from the stage. 'But I have not played my five acts, only three.' 'True, but in life three acts can be the whole play.' Completion is determined by that being who caused first your composition and now your dissolution. You have no part in either causation.

Go then in peace: the god who lets you go is at peace with you.



UPDATE
**Did my first-ever
Twitter Q&A on
Sunday, 17th Feb.** →
**Next session on
Sunday, 24th Feb.**
**(will announce time
on [Twitter](#))**



Vishal Khandelwal ✓

@safalniveshak

Twitter Q&A...starts HERE! Ask me anything below: long term investing (no specific stocks pls), investing process, personal finance basics, starting up, failing, writing, blogging, minimalism, etc.

My first attempt, so please be kind. 🙏

6:00 PM - 17 Feb 2019

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322

98

485



THANK YOU!

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